

PRODUCTION AND PRODUCER'S BEHAVIOR IN A COMPETITIVE ENVIRONMENT

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ABSTRACT

The consumer goes to market in order to buy the products that are useful for him or simply to buy something which makes him happy. In other words he tries to satisfy his basic needs (such as food, clothing etc) as well as the secondary ones.

The producer comes to market with the products requested by the consumers and tries to sell it at a price that would cover production costs and obtain a profit. The manufacturer must meet the consumer desires offering him those products that have desirable characteristics, have a nice design, etc. The manufacturer has a multitude of ways to promote his products so that they can be sold and not kept in stock, there by wasting a substantial amount of resources.

General issues

It is known that production, as a process, expressed in the most general terms, represents a set of operations or activities to transform, through labor and means of employment, goods and materials into finished products in order to meet specific needs of consumers and make profit.

Economy, in generally, and management, in particular, operate with the notion of production in order to find solutions to minimize resource consumption and maximize the profit of the manufacturer.

Production factors are grouped into three categories: labor, land and capital, which register large variations in the long term, and the production function is expressed by the relation (1).

$$X+P = f(L, K, F, T). \quad (1)$$

Specialists in economics have concluded that the classical theories of international trade competitiveness of countries, namely, the theory of absolute advantage developed by Adam Smith and the theory of comparative advantage developed by David Ricardo, are no longer able to answer to specific problems, emerging economy of the developed countries economically.

Based on these findings, new theories of competitiveness, highlights the theory of competitive advantage of Michael Porter (Porter, 1998). It starts from the simple observation that some countries are more successful than others in exports. He also noted that some countries with natural potential, which gives them an absolute advantage, sometimes they fail to exploit fully, while others without such an advantage, are successful.

Porter suggests that the explanation of these appearances (paradoxes) is how countries and firms develop strategies for increasing their productivity and competitiveness over time. After Porter, what matters for competitive advantage are not so endowed with natural resources and production factors, especially as efforts to investment and capital formation, and no amount of these efforts, and especially their quality.

Indeed, countries with lower endowment in factors of production can develop key sectors to stimulate investment and innovation, investing in infrastructure and creating supply of skilled labor. This task is destined mainly to companies, but government can help to carry it by creating a proper business environment and investment climate to encourage firms to specialize and become world leaders.

Behavior derives from the nature of competitive economic system based on market rules. Considerations of rationality implies that the individual companies, not only pursuing their own interest but also to one of reaching competitive advantage against rivals (on market share, technological advances, domination by costs or prices, customer loyalty, reputation products).

Eventually even consumers are the ones that confirm and give competitive advantages allowing to the firm to consolidate the position on the market. The metaphor refers to a vote of confidence in recognition and appreciation of customer loyalty product.

Competition, a very active form of free enterprise, private property is caused by this being, in turn, an essential feature of the market economy. Manufacturers are interested in obtaining profit, while consumers indicate their choices that they offer their goods aimed at their usefulness.

The market is the best innovation in the organization of supply and demand, and the main requirement that any economy must cope with is to allocate its resources so that both producers and consumers are satisfied. Through competition, a manufacturer may seek permanent change in the market and the relationship between resources and expenditure. They influence the market by charging lower prices and attract as many consumers as possible, to their products.

The concept of comparative advantage and the concept of competitive advantage

Correct explanation of the concept of comparative advantage and the concept of competitive advantage is topical and of particular importance especially when it comes to the application of appropriate economic policies, to ensure Romania's external competitiveness.

The theory of comparative advantage implies a favorable natural environment in an economy (for example, reduced costs of production factors) in comparison to other national economies. In this case, specialization, achieved only in certain areas, is based on the benefits of using natural agents available.

Economic objectives of the action are performed autonomously by the free play of market competition. That is the cause why economic policies used are way more passive than active no action is directed towards achieving of certain goals.

Comparative advantage theory generally relies on three pillars:

- *abundant and cheap natural resources;*
- *general competitive business environment;*
- *a neutral economic policy.*

The law of comparative advantage has allowed to operate freely on the configuration of the Romanian industry, the objective factor, leading to dysfunction of the industrial sub-systems, which meant, ultimately, a general degradation of the industrial structure of our country.

Romania has developed areas of economic activity calling for large amounts of natural resources (eg: steel industry, bauxite processing, petrochemical, chemical fertilizer industry etc.), but these resources are found in insufficient quantities in the country to cover needs of these industries, are extracted from the basement with high costs, reasons for the difference was imported.

These industries could be developed but only to the satisfaction level of domestic demand and not to export. This thing can be made only by countries with abundant natural resources, such as for example: Iran, Iraq, Venezuela etc. for crude oil, Australia, Brazil, Ukraine for iron ore, etc.

Romania would have to develop economic activity areas (food, leather, textiles, etc.), related to natural resources from agriculture, because it has very favorable conditions (large area of fertile soil, favorable climate, the alternation of seasons, etc.).

Romania also may develop the information technology (IT) because it possesses very good specialists in the field and opportunities for training of future specialists at the country.

No European country developed, large or medium, could not afford to attend the contraction or disappearance of certain industries and companies that contributed in significant measure, to the generation and dissemination of technical progress in the economy, or the disappearance of branches supporting implementation of investment programs, the computerization of the economy and society as happened in our country.

The law of comparative advantage, allowed to act freely in a still inoperative market, as it is in our country, with an unstable business environment, affects not only companies with no prospect of development, but also their reliability.

Competitive advantage, the invisible component of any strategy, designate organizations to achieve significantly superior products or services to consumers, compared with similar offerings of most competitors on the market.

Competitive advantage refers to one or more element critical for the consumer, which induces him to buy the product or service, and the parameters to which the organization carried out the item or items need to be better than those done by the majority of competitors, in other words to be at the top of the hierarchy of products or services provided by the industry in which fits the organization.

According to Michael Porter, an organization's competitive advantage is reduced, in essence, at the providing of a low cost product/service or a product/service that distinguishes itself by its qualities, from the other similar products/services offered by other competitors or by the most of them.

The only source in achieving the competitive advantage is the innovation, which may refer to the renewal of product, technology, equipment, owner, management, marketing, finance, personnel, information, etc.

By the strategic option, one can see how innovation is achieved, innovation thru which the competitive advantage is acquired. In order to be viable, competitive advantage must be constructed on a long term basis, and it must be sustainable for a long period of time. Otherwise, we can't speak of a strategic type of competitive advantage, but of a temporary advantage based on the exploitation of fleeting opportunities or good times

The concept of competitive advantage, presented in a dynamic and microeconomic vision points out that economic success depends on competitiveness of the companies on national and international markets, the implementation of technical progress and less on the existence of natural resources.

The real economy is manifested in the competitiveness of each company and is performed at the level of individual industries with direct implications in the national economy indicators. Basically, firms create and sustain competitive advantage.

If the strategy starts from the existence of cheap and available resources, market forces are free, unlimited, but flawed. Romanian companies which operate in a hostile economic environment (inflation, financial jam, inconsistent legislation, etc.) are disadvantages to the big firms in developed countries, which have a superior competitive power.

By applying the law of comparative advantage these companies are favored in developed countries. Domestic firms have not, in fact, designed according to comparative advantage, competitive protection from shock, not practical in any way stimulated domestic capital. Appropriate policies can be implemented, but having that competitive edge theoretical foundation, which has a strong operational character.

In fact, empirical analysis is performed at the micro level that is designed to identify direct and indirect effects of actions or the application of economic policy implementation. Finally, it identifies ways of action to achieve the main objective, namely increasing competitiveness.

The comparative and competitive advantage manifest themselves at different levels and in different proportions in the entire world economies, so that in less developed economies leads the comparative advantage, while in highly developed countries leads the competitive advantage.

In this situation, highly economically developed countries are advantaged because, using continuous innovation in manufacturing processes, they produce goods at a low cost but high quality and sell their superior quality products at very low prices compared to similar products from the competing countries with a less developed economy.

Japan, South Korea, Taiwan, Malaysia etc, can be given as examples. Although they have small quantities of natural resources and are importing a big variety of prime materials, they managed to make miracles with their national

economies by intelligent exploitation of those resources, imposing themselves vary fast on the international market.

The European single market can bring multiple benefits to firms, including the Romanian ones, giving them the opportunity to increase economies or obtain incentives for increasing exports but also to make new investments.

The single market free movement means, in fact, unrestricted flows of goods and services to meet a more sophisticated and growing demand, to which all producers have the opportunity to participate. However, under ever-increasing competition, only strong firms with international activity can be victorious.

Legislation must effectively support the Romanian companies by increasing their competitiveness towards concentration, until they become strong enough on the market for both national and European Union markets and the world as they did years ago, Japanese authorities, South Korean ones (for example, during the economic crisis economic legislation has been partially suspended to allow Japanese oligopolies to withstand shocks caused by the crisis).

Conclusions

Manufacturers can not start to produce what they intend to produce without a perfect knowledge of the market, without a careful study of it, in order to find out what are the requirements, opportunities and who are their competitors because they are high risk to loose resources (material, human, financial, informational) advanced in the manufacturing process and to risk their goal of making profit.

Therefore, the assessment of the producers evolution takes account on the level of resources used to achieve established production, but also on the leverage its market.

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